

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Macomb</u>	County Macomb
Audit Date June 30, 2004	Opinion Date October 4, 2004	Date Accountant Report Submitted To State: December 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mt. Clemens	State MI	ZIP 48043
Accountant Signature 			

Township of Macomb Macomb County, Michigan

**Financial Report
with Supplemental Information
June 30, 2004**

Township of Macomb

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Independent Auditor's Report

To the Board of Trustees
Township of Macomb
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Macomb as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Macomb's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Macomb as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress (as identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Board of Trustees
Township of Macomb
Macomb County, Michigan

The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Macomb's basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 4, 2004

Township of Macomb

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township of Macomb (the "Township") on a government-wide basis. They are designed to present a longer-term view of the Township's finances. Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the Township were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the Township's operations in more detail than the government-wide financial statements.

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2004 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 38.7	\$ 36.3	\$ 45.2	\$ 42.8	\$ 83.9	\$ 79.1
Noncurrent assets:						
Restricted assets	9.2	12.0	7.0	7.6	16.2	19.6
Capital assets	<u>34.7</u>	<u>21.7</u>	<u>130.0</u>	<u>128.7</u>	<u>164.7</u>	<u>150.4</u>
Total assets	82.6	70.0	182.2	179.1	264.8	249.1
Liabilities						
Current liabilities	3.7	1.8	2.5	2.3	6.2	4.1
Long-term liabilities	<u>31.1</u>	<u>23.8</u>	<u>12.8</u>	<u>14.0</u>	<u>43.9</u>	<u>37.8</u>
Total liabilities	<u>34.8</u>	<u>25.6</u>	<u>15.3</u>	<u>16.3</u>	<u>50.1</u>	<u>41.9</u>
Net Assets						
Invested in capital assets -						
Net of related debt	12.4	11.1	122.8	120.8	135.2	131.9
Restricted	6.8	6.2	0.5	1.3	7.3	7.5
Unrestricted	<u>28.6</u>	<u>27.1</u>	<u>43.6</u>	<u>40.7</u>	<u>72.2</u>	<u>67.8</u>
Total net assets	<u>\$ 47.8</u>	<u>\$ 44.4</u>	<u>\$ 166.9</u>	<u>\$ 162.8</u>	<u>\$ 214.7</u>	<u>\$ 207.2</u>

The Township's combined net assets increased 3.6 percent from a year ago, increasing from \$207.2 million to \$214.7 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$3.4 million in net assets, or 7.7 percent, during fiscal year 2004. The increase in total net assets is attributable to an excess of revenue over controlled expenditures. The business-type activities experienced a 2.5 percent increase in net assets as well. This was primarily due to contributions of water and sewer lines by developers and the continued growth in the customer base.

Township of Macomb

Management's Discussion and Analysis (Continued)

Unrestricted net assets for the governmental activities were \$28.6 million at June 30, 2004. This amount represents the part of net assets that is available to finance day-to-day operations and future growth of the Township.

The following table shows the changes in net assets (in million of dollars) as of June 30, 2004 and the prior year:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 2.8	\$ 2.7	\$ 11.5	\$ 10.0	\$ 14.3	\$ 12.7
Operating grants and contributions	0.1	0.1	-	-	0.1	0.1
Capital grants and contributions	-	-	6.4	19.2	6.4	19.2
General revenue:						
Property taxes	8.6	7.7	-	-	8.6	7.7
State-shared revenue	3.6	4.0	-	-	3.6	4.0
Interest	0.6	0.9	0.5	0.9	1.1	1.8
Cable fees and other	0.6	0.6	-	-	0.6	0.6
Total revenue	16.3	16.0	18.4	30.1	34.7	46.1
Program Expenses						
General government	3.5	2.8	-	-	3.5	2.8
Public safety	6.3	5.3	-	-	6.3	5.3
Public works	0.6	0.6	-	-	0.6	0.6
Recreation and culture	1.2	0.8	-	-	1.2	0.8
Interest on long-term debt	1.3	1.2	-	-	1.3	1.2
Water and sewer	-	-	14.3	11.5	14.3	11.5
Total program expenses	12.9	10.7	14.3	11.5	27.2	22.2
Change in Net Assets	3.4	5.3	4.1	18.6	7.5	23.9
Net Assets - Beginning of year	44.4	39.1	162.8	144.2	207.2	183.3
Net Assets - End of year	<u>\$ 47.8</u>	<u>\$ 44.4</u>	<u>\$ 166.9</u>	<u>\$ 162.8</u>	<u>\$ 214.7</u>	<u>\$ 207.2</u>

Township of Macomb

Management's Discussion and Analysis (Continued)

Governmental Activities

The Township's total governmental revenues increased by approximately \$0.3 million from last fiscal year. This was primarily attributed to the increase in property tax revenues and charges for services. An increase in total governmental revenues was achieved despite decreases in state-shared revenue and the declining interest due to the downturn in the market.

Expenses increased by about \$2.2 million, or 20.6 percent, over last fiscal year. This increase resulted from the continued growth of Macomb Township and the various needs of the community.

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund. Revenues of the Township's business-type activities decreased 38.9 percent to \$18.4 million. Revenues of the Township's business-type activity decreased by \$18.4 million primarily as a result in the reduction of water and sewer lines contributed by developers during the year ended June 30, 2004.

Expenses increased 24.3 percent to \$14.3 million for the year ended June 30, 2004. The increase in expenses is primarily attributable to continued growth of the water and sewer system and increases in the cost of water and sewer purchases. The Township provides water, which is purchased from the City of Detroit Water System, to nearly all its residents. A significant factor to the increased expenses was a 19 percent increase in the cost of water from the City of Detroit Water System. The Township did not pass the same percentage increase along to its residents. The Township also provides sewage treatment to nearly all of its residents through the Macomb County sewage treatment plant.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as show accountability for certain activities. The Township's major funds for 2004 include the General Fund, Parks and Recreation Operating Fund, Fire Operating Fund, Law Enforcement Sheriff Fund, Municipal Street Fund, Building Authority Debt Service Fund, and Building Authority Capital Projects Fund.

Township of Macomb

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township administration and Township Board monitor and amend the budget to take into account unanticipated events that occur during the year. The most significant of these events during fiscal year 2004 were the decreases in anticipated state-shared revenues and interest income. These revenues decreased due to the downturn in the economy and state cutbacks during 2003 and 2004. Even with those issues, the Township still completed the year with an increase in total revenue over the budgeted amount of \$0.9 million and a decrease of total expenses over the budgeted amount of \$0.8 million.

Capital Assets and Debt Administration

At the end of fiscal year 2004, the Township had \$191 million invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, and water and sewer lines. In addition, the Township is reporting infrastructure assets, which include roads and bridges in which it has invested since 1980. The value of the infrastructure assets, net of depreciation contained in this report, is \$2.8 million for fiscal years 2004 and 2003 (see Note 3 of the notes to the basic financial statements for additional information). Additionally, the value of buildings and improvements, net of depreciation, is \$26.7 million and \$13.9 million for fiscal years 2004 and 2003, respectively.

Debt reported in these financial statements is related to the construction of the above-mentioned buildings and improvements assets and is reported as a liability on the statement of net assets (see Note 5 of the notes to the basic financial statements for additional information).

Economic Factors and Next Year's Budgets and Rates

Macomb Township continues to reduce its property tax millage rate in 2004. Strong expenditure controls and past growth in the Township's tax base have helped to accomplish this planned millage rate reduction. Property taxes make up nearly 19.9 percent of the General Fund budget. Annual new growth and development in the Township have fallen 18.8 percent in the past year and are expected to remain stable for the next few years. In addition, state revenue sharing, which represents nearly 41.3 percent of the General Fund budget, is unlikely to increase due to State cutbacks and less sales tax receipts at the State level.

On the expense side, the Township continues to operate with relatively low personnel costs and an efficient labor force. While our pension system is fully funded, we do anticipate further increases in pension fund contributions due to the declining stock and bond markets. We also expect continued annual increases in medical costs of nearly 10 percent to 15 percent per year. Despite these increased costs, our expense increases are anticipated to average between 4 percent and 8 percent per year. We will adjust expenses to mirror the revenue base, ensuring the continuation of the trend of excess revenues over expenses established over nine years ago.

Township of Macomb

Management's Discussion and Analysis (Continued)

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the Macomb Township finance office.

Township of Macomb

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 37,290,333	\$ 42,100,696	\$ 79,391,029	\$ 652
Receivables:				
Customers	43,800	2,479,561	2,523,361	-
Special assessments - Current	11,016	31,965	42,981	-
Due from other governmental units	1,375,941	-	1,375,941	-
Internal balances (Note 4)	(34,913)	34,913	-	-
Inventories	-	540,004	540,004	-
Restricted assets (Note 6)	9,165,958	6,998,249	16,164,207	-
Capital assets not being depreciated (Note 3)	3,018,816	4,142,286	7,161,102	-
Capital assets being depreciated (Note 3)	31,701,168	125,879,601	157,580,769	-
Total assets	82,572,119	182,207,275	264,779,394	652
Liabilities				
Accounts payable	2,183,936	1,561,070	3,745,006	-
Accrued and other liabilities	743,217	167,942	911,159	-
Current liabilities payable from restricted assets	-	235,000	235,000	-
Noncurrent liabilities (Note 5):				
Due within one year	808,136	517,500	1,325,636	-
Due in more than one year	31,051,983	12,788,725	43,840,708	-
Total liabilities	34,787,272	15,270,237	50,057,509	-
Net Assets				
Invested in capital assets - Net of related debt	12,375,182	122,782,763	135,157,945	-
Restricted:				
Parks and Recreation Operating Fund	2,274,027	-	2,274,027	-
Fire Operating Fund	3,870,109	-	3,870,109	-
Law enforcement sheriff	515,630	-	515,630	-
Debt service	159,438	569,873	729,311	-
Unrestricted	28,590,461	43,584,402	72,174,863	652
Total net assets	<u>\$ 47,784,847</u>	<u>\$ 166,937,038</u>	<u>\$ 214,721,885</u>	<u>\$ 652</u>

Township of Macomb

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 3,530,119	\$ 112,730	\$ 121,961	\$ -
Public safety	6,324,841	1,952,208	14,380	-
Public works	633,586	452,207	-	-
Recreation and culture	1,160,785	264,519	-	-
Interest on long-term debt	1,274,071	-	-	-
Total governmental activities	12,923,402	2,781,664	136,341	-
Business-type activities - Water and sewer	14,294,266	11,486,379	-	6,410,702
Total primary government	<u><u>\$ 27,217,668</u></u>	<u><u>\$ 14,268,043</u></u>	<u><u>\$ 136,341</u></u>	<u><u>\$ 6,410,702</u></u>
Component unit - Economic Development Corporation	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Cable fees and other				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (3,295,428)	\$ -	\$ (3,295,428)	\$ -
(4,358,253)	-	(4,358,253)	-
(181,379)	-	(181,379)	-
(896,266)	-	(896,266)	-
(1,274,071)	-	(1,274,071)	-
(10,005,397)	-	(10,005,397)	-
-	3,602,815	3,602,815	-
(10,005,397)	3,602,815	(6,402,582)	-
-	-	-	-
8,522,371	-	8,522,371	-
3,623,399	-	3,623,399	-
576,587	523,622	1,100,209	447
628,271	-	628,271	-
13,350,628	523,622	13,874,250	447
3,345,231	4,126,437	7,471,668	447
44,439,616	162,810,601	207,250,217	205
\$ 47,784,847	\$ 166,937,038	\$ 214,721,885	\$ 652

Township of Macomb

	General Fund	Parks and Recreation Operating Fund	Fire Operating Fund	Law Enforcement Sheriff
Assets				
Cash and investments (Note 2)	\$ 19,988,853	\$ 2,769,058	\$ 4,044,744	\$ 517,050
Receivables - Net	811,531	-	2,985	-
Due from other funds (Note 4)	37,440	-	4,500	-
Restricted assets (Note 6)	-	-	-	-
Total assets	<u>\$ 20,837,824</u>	<u>\$ 2,769,058</u>	<u>\$ 4,052,229</u>	<u>\$ 517,050</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 195,425	\$ 87,459	\$ 30,315	\$ 1,420
Accrued and other liabilities	194,755	29,066	60,310	-
Due to other funds	4,500	-	34,913	-
Deferred revenue	-	-	-	-
Total liabilities	394,680	116,525	125,538	1,420
Fund Balances				
Reserved for - Building Authority				
Capital Projects	-	-	-	-
Unreserved:				
General Fund	20,443,144	-	-	-
Special Revenue Funds	-	2,652,533	3,926,691	515,630
Capital Projects Funds	-	-	-	-
Designated	-	-	-	-
Total fund balances	<u>20,443,144</u>	<u>2,652,533</u>	<u>3,926,691</u>	<u>515,630</u>
Total liabilities and fund balances	<u>\$ 20,837,824</u>	<u>\$ 2,769,058</u>	<u>\$ 4,052,229</u>	<u>\$ 517,050</u>

**Governmental Funds
Balance Sheet
June 30, 2004**

Building Authority Debt Service	Building Authority Capital Projects	Municipal Street	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,131	\$ -	\$ 3,086,034	\$ 6,881,463	\$ 37,290,333
-	-	-	11,016	825,532
-	-	-	-	41,940
-	9,165,958	-	-	9,165,958
<u>\$ 3,131</u>	<u>\$ 9,165,958</u>	<u>\$ 3,086,034</u>	<u>\$ 6,892,479</u>	<u>\$ 47,323,763</u>
\$ -	\$ 1,869,317	\$ -	\$ -	\$ 2,183,936
-	-	459,086	-	743,217
-	-	-	37,440	76,853
-	-	-	11,016	11,016
-	1,869,317	459,086	48,456	3,015,022
-	7,296,641	-	-	7,296,641
-	-	-	-	20,443,144
-	-	-	3,659,108	10,753,962
-	-	2,626,948	3,028,608	5,655,556
3,131	-	-	156,307	159,438
<u>3,131</u>	<u>7,296,641</u>	<u>2,626,948</u>	<u>6,844,023</u>	<u>44,308,741</u>
<u>\$ 3,131</u>	<u>\$ 9,165,958</u>	<u>\$ 3,086,034</u>	<u>\$ 6,892,479</u>	<u>\$ 47,323,763</u>

Township of Macomb

Governmental Funds **Reconciliation of Fund Balances to the Statement of Net Assets** **Year Ended June 30, 2004**

Fund Balances - Total Governmental Funds \$ 44,308,741

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures;
in the statement of net assets, these costs are allocated
over their estimated useful lives as depreciation 34,719,984

Certain receivables are expected to be collected over several
years and are not available to pay for current year
expenditures 616,241

Long-term liabilities are not due and payable in the current
period and are not reported in the funds (31,860,119)

Net Assets of Governmental Activities **\$ 47,784,847**

Township of Macomb

	General Fund	Parks and Recreation Operating Fund	Fire Operating Fund	Law Enforcement Sheriff
Revenue				
Property taxes and fees	\$ 1,681,720	\$ 2,030,515	\$ 2,791,164	\$ 2,018,972
Licenses and permits	2,138,452	-	-	-
Federal grants	45,229	-	-	-
State-shared revenues and grants	3,706,455	-	-	14,380
Charges for services	386,293	264,519	-	-
Fines and forfeitures	135,673	-	-	-
Special assessment	452,207	-	-	-
Interest	269,065	30,692	47,677	9,189
Other	163,459	4,627	3,520	-
Total revenue	8,978,553	2,330,353	2,842,361	2,042,541
Expenditures				
Current:				
General government	2,594,179	-	-	-
Public safety	1,985,782	-	1,611,635	2,068,812
Public works	449,956	-	-	-
Recreation and culture	-	782,279	-	-
Employee benefits and insurance	1,251,333	-	-	-
Capital outlay	-	-	-	-
Debt service	85,289	47,019	-	-
Total expenditures	6,366,539	829,298	1,611,635	2,068,812
Excess of Revenue Over (Under) Expenditures	2,612,014	1,501,055	1,230,726	(26,271)
Other Financing Sources (Uses)				
Transfers in (Note 4)	42,482	-	-	-
Transfers out (Note 4)	(1,299,185)	(1,209,211)	(500,000)	-
Bond proceeds	-	-	-	-
Bond discounts	-	-	-	-
Total other financing sources (uses)	(1,256,703)	(1,209,211)	(500,000)	-
Net Change in Fund Balances	1,355,311	291,844	730,726	(26,271)
Fund Balances - Beginning of year	19,087,833	2,360,689	3,195,965	541,901
Fund Balances - End of year	<u>\$ 20,443,144</u>	<u>\$ 2,652,533</u>	<u>\$ 3,926,691</u>	<u>\$ 515,630</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2004

Building Authority Debt Service	Building Authority Capital Projects	Municipal Street	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 8,522,371
-	-	-	-	2,138,452
-	-	-	-	45,229
-	-	-	-	3,720,835
-	-	-	3,026	653,838
-	-	-	-	135,673
-	-	-	10,521	462,728
504	120,445	21,678	77,337	576,587
-	-	31,265	-	202,871
504	120,445	52,943	90,884	16,458,584
-	-	-	250,397	2,844,576
-	-	-	-	5,666,229
-	-	-	-	449,956
-	-	-	-	782,279
-	-	-	-	1,251,333
-	13,390,269	168,617	-	13,558,886
1,785,556	-	-	41,363	1,959,227
1,785,556	13,390,269	168,617	291,760	26,512,486
(1,785,052)	(13,269,824)	(115,674)	(200,876)	(10,053,902)
1,776,762	-	750,000	582,000	3,151,244
-	(19,966)	-	(122,882)	(3,151,244)
-	8,700,000	-	-	8,700,000
-	(131,900)	-	-	(131,900)
1,776,762	8,548,134	750,000	459,118	8,568,100
(8,290)	(4,721,690)	634,326	258,242	(1,485,802)
11,421	12,018,331	1,992,622	6,585,781	45,794,543
<u>\$ 3,131</u>	<u>\$ 7,296,641</u>	<u>\$ 2,626,948</u>	<u>\$ 6,844,023</u>	<u>\$ 44,308,741</u>

Township of Macomb

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ (1,485,802)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	13,004,159
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(10,390)
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Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	(83,057)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	685,156
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Proceeds from issuance of bonds is a revenue in governmental funds, but is not in the statement of activities (where it increases long-term debt)	(8,700,000)
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Accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(64,835)</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 3,345,231</u></u>
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Township of Macomb

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise - Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 42,100,696
Receivables:	
Customers	2,479,561
Special assessments	31,965
Due from other funds (Note 4)	34,913
Inventories	540,004
Total current assets	45,187,139
Noncurrent assets:	
Restricted assets (Note 6)	6,998,249
Capital assets not being depreciated (Note 3)	4,142,286
Capital assets being depreciated (Note 3)	125,879,601
Total noncurrent assets	137,020,136
Total assets	182,207,275
Liabilities	
Current liabilities:	
Accounts payable	1,561,070
Accrued and other liabilities	167,942
Current liabilities payable from restricted assets (Note 6)	235,000
Current portion of long-term debt (Note 5)	517,500
Total current liabilities	2,481,512
Noncurrent liabilities:	
Provision for compensated absences (Note 5)	108,725
Long-term debt - Net of current portion (Note 5)	12,680,000
Total noncurrent liabilities	12,788,725
Total liabilities	15,270,237
Net Assets	
Investment in capital assets - Net of related debt	122,782,763
Restricted for debt service	569,873
Unrestricted	43,584,402
Total net assets	\$ 166,937,038

Township of Macomb

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise - Water and Sewer
Operating Revenue	
Sale of water	\$ 5,380,078
Sewage disposal charges	4,762,588
Charges for services	1,343,713
Total operating revenue	11,486,379
Operating Expenses	
Cost of water	3,953,599
Cost of sewage disposal	2,535,797
Operation and maintenance	1,090,587
General and administrative	2,647,366
Depreciation	2,932,733
Total operating expenses	13,160,082
Operating Loss	(1,673,703)
Nonoperating Revenue (Expenses)	
Investment income	523,622
Interest expense	(991,677)
Tap fees and frontage charges	4,503,885
Other expense	(142,507)
Income - Before contributions	2,219,620
Contributions from Developers	1,906,817
Change in Net Assets	4,126,437
Net Assets - Beginning of year	162,810,601
Net Assets - End of year	<u><u>\$ 166,937,038</u></u>

Township of Macomb

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 9,041,711
Payments to suppliers	(6,489,396)
Payments to employees	(1,437,671)
Internal activity - Payments to other funds	(59,550)
Net cash provided by operating activities	1,055,094
Cash Flows from Capital and Related Financing Activities	
Receipt of capital contributions	4,503,885
Net proceeds from issuance of long-term debt	4,915,000
Purchase of capital assets	(2,320,820)
Principal and interest paid on long-term debt	(6,673,858)
Net cash provided by capital and related financing activities	424,207
Cash Flows from Investing Activities - Interest received on investments	523,622
Net Increase in Cash and Cash Equivalents	2,002,923
Cash and Cash Equivalents - Beginning of year	47,096,022
Cash and Cash Equivalents - End of year	<u>\$ 49,098,945</u>
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	\$ 42,100,696
Restricted investments (Note 3)	6,998,249
Total cash and cash equivalents	<u>\$ 49,098,945</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,673,703)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	2,932,733
Changes in assets and liabilities:	
Receivables	(172,805)
Inventory	71,414
Due from other funds	310,083
Accounts payable	(416,798)
Accrued and other liabilities	4,170
Net cash provided by operating activities	<u>\$ 1,055,094</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, developers constructed water and sewer lines with an estimated value of \$1,906,817 and donated them to the Township's Water and Sewer Enterprise Fund.

Township of Macomb

Fiduciary Funds Statement of Net Assets June 30, 2004

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents	\$ 1,596,642	\$ 2,393,977
Investments:		
U.S. government securities	22,947	-
Mutual funds	493,726	-
Other assets	47	-
Total assets	2,113,362	<u>\$ 2,393,977</u>
Liabilities		
Due to other governmental units	-	\$ 20,986
Cash bonds and deposits	-	2,372,991
Total liabilities	-	<u>\$ 2,393,977</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 2,113,362</u>	

Township of Macomb

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income - Interest and dividends	\$ 162,121
Contributions:	
Employer	151,205
Employee	<u>11,956</u>
Total contributions	<u>163,161</u>
Total additions	325,282
Deductions - Benefit payments	<u>15,906</u>
Net Increase	309,376
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>1,803,986</u>
End of year	<u><u>\$ 2,113,362</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Macomb (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Macomb:

Reporting Entity

The Township of Macomb is governed by an elected seven-member Board of Trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The following component units are reported as if they were parts of the primary government in the financial statements.

- a. The Fire Retirement System has been blended into the Township's financial statements. The System is governed by a five-member pension board that includes the Macomb Township Treasurer, two individuals chosen by the Township's Board, and two elected fire department members. The System is reported as if it were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the retirement system.
- b. The Macomb Township Building Authority is governed by a three-member board that is appointed by the Township's Board of Trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to provide certain facilities necessary for the operation of the Township's government and to finance and construct the Township's public buildings.

Note 1 - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Unit - The Economic Development Corporation is reported within the component unit column in the combined financial statements. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of eight individuals, is selected by the Township Board.

Jointly Governed Organization - The Township, in conjunction with Clinton Township, has created the Clinton Macomb District Library (the "Library"). The Library's Board is composed of three members appointed by Clinton Township's Board of Trustees and three members appointed by Macomb Township's Board of Trustees. The Library is funded through property taxes, specifically through a separate property tax millage that is not recorded as revenue by Macomb Township. The Library currently does not receive a subsidy from the Township. The financial statements for the Library can be obtained from the Library's administrative office at 43245 Garfield Rd., Clinton Township, MI. The Township is unaware of any circumstance that would cause an additional benefit or burden to the participating governments of the above joint venture in the near future.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from a legally separate component unit for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Parks and Recreation Operating Fund - The Parks and Recreation Operating Fund accounts for the activities of the Parks and Recreation Department and all resources used for the purpose of providing this service.

Fire Operating Fund - The Fire Operating Fund accounts for all of the activities of the Township's fire department, except for the purchase of equipment.

Law Enforcement Sheriff Fund - The Law Enforcement Sheriff Fund accounts for the police activities of the Township.

Building Authority Debt Service Fund - The Building Authority Debt Service Fund accounts for all debt payments made related to construction activities for new Township facilities.

Building Authority Fund - The Building Authority Fund (a Capital Projects Fund type) accounts for construction activities for new Township facilities.

Municipal Street Fund - The Municipal Street Fund accounts for reimbursements made to the County for street projects performed by the County on behalf of the Township.

The Township reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Township reports the following funds:

Pension Trust Fund and Retiree Medical Benefit Fund - The Pension Trust Fund and the Retiree Medical Benefit Fund account for the activities of the fire employees' retirement system, which accumulates resources for pension benefit payments to qualified fire employees and for medical benefits provided to employees during retirement, respectively.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2003 taxable valuation of the Township totaled \$2,308,698,740, on which ad valorem taxes levied consisted of 0.7183 mills for the Township's operating purposes, 1.25 mills for fire operating purposes, 0.0652 mills for fire pension, 0.8702 mills for police protection, and 0.8752 mills for parks and recreation. The ad valorem taxes raised \$1,658,338 for general operations, \$2,885,873 for fire operations, \$150,527 for fire pension, \$2,009,030 for police protection, and \$2,020,573 for parks and recreation. The Fire Pension Fund's tax revenue is recorded as an employer contribution to the pension system. The remaining amounts are recorded in their respective funds as tax revenue.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The bonds of the Enterprise Fund and the governmental funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 years
Water and sewer mains	50-70 years
Water meters	50 years
Buildings and building improvements	40 years
Vehicles	5 years
Office furnishings	7 years
Other tools and equipment	5-7 years

Compensated Absences - The Township allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Construction Code Act - The Township tracks the results of building department operation in the General Fund in accordance with Michigan Public Act 245 of 1999. The Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

Cumulative revenue over expenditures - July 1, 2003		\$ 351,022
2003-2004 building department activity:		
Permit revenue	\$ 1,636,450	
Expenditures	<u>(2,358,813)</u>	
Net shortfall for the year ended June 30, 2004		<u>(722,363)</u>
Cumulative expenditures over revenue - June 30, 2004		<u>\$ (371,341)</u>

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The retirement system is also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets have exceeded \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Township of Macomb

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

The investment policy adopted by the Board in accordance with Public Act 20 of 1943 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, commercial paper rated at the time of purchase at the highest classification established by not less than two standard rating services and that matures not more than 270 days after the date of purchase, repurchase agreements of bonds, securities, and other obligations of the United States, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service, interlocal agreements organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to MCL 124.512, investment pools organized under the Surplus Funds Investment Pool Act of 1982, PA 367, MCL 129.11 to MCL 129.118, or investment pools organized under the Local Government Pool Act of 1985, PA 121, MCL 129.141 to MCL 129.150.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 22,143,198	\$ 17,714,371	\$ 1,631,055	\$ 41,488,624	\$ 652
Investments	15,147,135	24,386,325	2,876,237	42,409,697	-
Restricted assets	<u>9,165,958</u>	<u>6,998,249</u>	<u>-</u>	<u>16,164,207</u>	<u>-</u>
Total	<u>\$ 46,456,291</u>	<u>\$ 49,098,945</u>	<u>\$ 4,507,292</u>	<u>\$ 100,062,528</u>	<u>\$ 652</u>

The breakdown between deposits and investments for the Township of Macomb is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 57,651,931	\$ 652
Investments in securities, mutual funds, and similar vehicles	42,409,697	-
Petty cash or cash on hand	<u>900</u>	<u>-</u>
Total	<u>\$ 100,062,528</u>	<u>\$ 652</u>

Note 2 - Deposits and Investments (Continued)

The bank balance of the Township's deposits is \$58,277,583, of which \$1,700,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds.

The Township's investments at June 30, 2004 consisted of bank investment pools and mutual funds totaling \$42,409,697. Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Township believes that investments in these pools and funds comply with the investment authority noted above. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Township of Macomb

Notes to Financial Statements June 30, 2004

Note 3 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated - Land	\$ 3,014,648	\$ 4,168	\$ -	\$ 3,018,816
Capital assets being depreciated:				
Infrastructure	3,334,625	150,607	-	3,485,232
Buildings and improvements	15,527,065	13,323,626	-	28,850,691
Vehicles	2,143,941	317,673	2,300	2,459,314
Office furnishings	2,327,025	366,568	59,087	2,634,506
Other tools and equipment	420,474	34,860	13,468	441,866
Subtotal	23,753,130	14,193,334	74,855	37,871,609
Accumulated depreciation:				
Infrastructure	502,374	138,944	-	641,318
Buildings and improvements	1,649,934	545,297	-	2,195,231
Vehicles	1,657,421	156,295	2,300	1,811,416
Office furnishings	1,028,060	294,856	59,087	1,263,829
Other tools and equipment	214,164	57,951	13,468	258,647
Subtotal	5,051,953	1,193,343	74,855	6,170,441
Net capital assets being depreciated	18,701,177	12,999,991	-	31,701,168
Net capital assets	\$ 21,715,825	\$ 13,004,159	\$ -	\$ 34,719,984

Township of Macomb

Notes to Financial Statements June 30, 2004

Note 3 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 91,700	\$ -	\$ -	\$ 91,700
Construction in progress	4,505,169	1,900,486	2,355,069	4,050,586
Subtotal	4,596,869	1,900,486	2,355,069	4,142,286
Capital assets being depreciated:				
Water and sewer mains	137,308,746	4,427,232	-	141,735,978
Water meters	3,681,419	184,067	-	3,865,486
Buildings and building improvements	2,541,707	16,995	-	2,558,702
Vehicles	641,322	38,060	-	679,382
Furniture and equipment	593,668	15,866	-	609,534
Subtotal	144,766,862	4,682,220	-	149,449,082
Accumulated depreciation:				
Water and sewer mains	18,919,696	2,675,111	-	21,594,807
Water meters	488,048	75,754	-	563,802
Buildings and building improvements	396,259	63,755	-	460,014
Vehicles	470,148	60,221	-	530,369
Furniture and equipment	362,597	57,892	-	420,489
Subtotal	20,636,748	2,932,733	-	23,569,481
Net capital assets being depreciated	124,130,114	1,749,487	-	125,879,601
Net capital assets	\$ 128,726,983	\$ 3,649,973	\$ 2,355,069	\$ 130,021,887

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 440,208
Public safety	250,920
Public works	183,630
Recreation and culture	318,585
Total governmental activities	\$ 1,193,343
Business-type activities - Water and sewer	\$ 2,932,733

Township of Macomb

Notes to Financial Statements June 30, 2004

Note 3 - Capital Assets (Continued)

Construction Commitments - The Township of Macomb has active construction projects at year end as follows:

Projects	Spent to Date	Remaining Commitment
Township Community Recreation Center	\$ 13,242,420	\$ 3,078,178
Township Fire Station #3	169,724	2,048,382
Township Fire Station #4	168,327	2,048,382

Additionally, the Township has a commitment with the Macomb County Public Works Commissioner as disclosed in Note 10.

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Nonmajor governmental funds	\$ 37,440
Fire Operating Fund	General Fund	4,500
Water and Sewer Fund	Fire Operating Fund	34,913
Total		<u>\$ 76,853</u>

Interfund balances represent routine and temporary cash flow assistance until funds are transferred.

Note 4 - Interfund Receivables, Payables, and Transfers (Continued)**Interfund Transfers Reported in the Fund Statements**

Fund Transferred From	Fund Transferred To	Amount
General Fund	Building Authority Debt Service Fund	\$ 547,185
	Municipal Street Fund	750,000
	Nonmajor governmental funds	2,000
Fire Operating Fund	Nonmajor governmental funds	500,000
Building Authority Capital Projects Fund	Building Authority Debt Service Fund	19,966
Parks and Recreation Operating Fund	Building Authority Debt Service Fund	1,209,211
Nonmajor governmental funds	Building Authority Debt Service Fund	400
Nonmajor governmental funds	Nonmajor governmental funds	80,000
Nonmajor governmental funds	General Fund	42,482
Total		<u>\$ 3,151,244</u>

Interfund transfers provided funding for operating assistance, capital projects, capital acquisitions, and debt service.

Note 5 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Township of Macomb

Notes to Financial Statements June 30, 2004

Note 5 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
2000 Building Authority Bonds						
Amount of issue - \$ 7,800,000	5.10% -	\$100,000 -				
Maturing through 2010*	8.00%	\$200,000	\$ 1,000,000	\$ (100,000)	\$ 900,000	\$ 100,000
2001 Building Authority Bonds:						
Amount of issue - \$10,000,000	4.00% -	\$25,000 -				
Maturing through 2027	5.25%	\$1,120,000	9,870,000	(25,000)	9,845,000	30,000
2002 Building Authority Bonds:						
Amount of issue - \$12,700,000	3.13% -	\$400,000 -				
Maturing through 2022	5.00%	\$900,000	12,300,000	(400,000)	11,900,000	400,000
2003 Building Authority Bonds:						
Amount of issue - \$2,700,000	2.00% -	\$75,000 -				
Maturing through 2022	4.00%	\$250,000	-	2,700,000	2,700,000	75,000
2003B Building Authority Bonds:						
Amount of issue - \$6,000,000	2.50% -	\$125,000 -				
Maturing through 2023	4.50%	\$550,000	-	6,000,000	6,000,000	125,000
Installment purchase agreements:						
1994 Land contract agreement:						
Amount of issue - \$455,000	5.00%	\$28,475 -				
Maturing through 2004		\$54,883	83,908	(83,908)	-	-
1997 Land contract agreement:						
Amount of issue - \$360,000	5.38%	\$38,535 -				
Maturing through 2007		\$45,188	167,008	(38,748)	128,260	40,636
Special assessment bonds:						
1995 Limited Tax Bonds:						
Amount of issue - \$345,000	5.15%					
Maturing through 2005		\$37,500	75,000	(37,500)	37,500	37,500
Total bond obligations			23,495,916	8,014,844	31,510,760	808,136
Other long-term obligations -						
Compensated absences			284,524	64,835	349,359	-
Total governmental activities			23,780,440	8,079,679	31,860,119	808,136

* The 2000 Building Authority Bond was partially refunded in 2001.

Township of Macomb

Notes to Financial Statements June 30, 2004

Note 5 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities						
General obligation bonds:						
2002 Capital Improvement Bonds						
Amount of issue - \$6,000,000	3.00% -	\$150,000 -				
Maturing through 2022	5.00%	\$450,000	\$ 5,850,000	\$ (150,000)	\$ 5,700,000	\$ 175,000
2004 GO Refunding Bonds						
Amount of issue - \$4,915,000	2.00% -	\$95,000 -				
Maturing through 2019	3.80%	\$760,000	-	4,915,000	4,915,000	95,000
Special assessment bonds:						
1995 Limited Tax Bonds						
Amount of issue - \$115,000	5.15%					
Maturing through 2005		\$12,500	25,000	(12,500)	12,500	12,500
Revenue bonds:						
1994 Revenue Bonds:						
Amount of issue - \$5,000,000	5.25%					
Maturing through 2014*		\$500,000	1,000,000	(1,000,000)	-	-
1998 Revenue Bonds:						
Amount of issue - \$5,000,000	4.375% -	\$100,000 -				
Maturing through 2019**	7.00%	\$500,000	4,600,000	(4,400,000)	200,000	200,000
Unamortized discount of issuance			(55,000)	55,000	-	-
1998 Refunding Bonds:						
Amount of issue - \$3,390,000	4.00% -	\$225,000 -				
Maturing through 2012	4.35%	\$390,000	2,830,000	(225,000)	2,605,000	270,000
Unamortized discount of issuance			(171,429)	171,429	-	-
Total bond obligations			14,078,571	(646,071)	13,432,500	752,500
Other long-term obligations -						
Compensated absences			87,328	21,397	108,725	-
Total business-type activities			14,165,899	(624,674)	13,541,225	752,500
Total			\$ 37,946,339	\$ 7,455,005	\$ 45,401,344	\$ 1,560,636

* The 1994 Revenue Bond was partially refunded in 1999.

** The 1998 Revenue Bond was partially refunded in 2004.

Township of Macomb

Notes to Financial Statements June 30, 2004

Note 5 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 808,136	\$ 1,399,880	\$ 2,208,016	\$ 752,500	\$ 512,146	\$ 1,264,646
2006	772,436	1,369,409	2,141,845	675,000	484,875	1,159,875
2007	825,188	1,340,647	2,165,835	665,000	463,358	1,128,358
2008	980,000	1,312,566	2,292,566	750,000	439,355	1,189,355
2009	1,060,000	1,276,479	2,336,479	795,000	411,455	1,206,455
2010-2014	6,050,000	5,746,955	11,796,955	4,560,000	1,572,921	6,132,921
2015-2019	9,805,000	4,195,567	14,000,567	3,910,000	743,667	4,653,667
2020-2024	9,710,000	1,497,900	11,207,900	1,325,000	100,094	1,425,094
2025-2027	1,500,000	153,750	1,653,750	-	-	-
Total	<u>\$ 31,510,760</u>	<u>\$ 18,293,153</u>	<u>\$ 49,803,913</u>	<u>\$ 13,432,500</u>	<u>\$ 4,727,871</u>	<u>\$ 18,160,371</u>

Defeased Debt

In a prior year, the Township defeased a general obligation bond by placing surplus cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bond are not included in the governmental activities statement of net assets. At June 30, 2004, \$1,000,000 of bonds outstanding are considered defeased.

In March 2004, the Township issued \$4,915,000 in refunding bonds with interest rates ranging from 2 percent to 3.8 percent; the proceeds were used to advance refund \$1,000,000 of outstanding 1994 Revenue bonds with an interest rate of 5.25 percent and \$4,300,000 of outstanding 1998 Revenue bonds with interest rates ranging from 4.375 percent to 7 percent. The net proceeds of \$5,522,722 (including premiums of \$11,525 and Township contribution of \$732,760 and after payment of \$136,563 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds mentioned above. As a result, bonds are considered to be defeased and the liability for the bonds has been removed from the Township's financial statements. The advance refunding reduced total debt service payments over the next 15 years by approximately \$1,345,000, which represents an economic gain of approximately \$1,042,000.

Note 6 - Restricted Assets

Specific assets of the Water and Sewer Fund and the Building Authority Capital Projects Fund have been restricted for operations and maintenance, replacement, and debt service as well as unspent bond proceeds. Following is the detail of restricted assets at June 30, 2004:

Water and Sewer Fund:

Restricted assets from bond covenants	
Cash and cash equivalents	\$ 804,873
Less current liabilities payable from restricted assets	<u>(235,000)</u>
Total restricted assets from bond covenants	569,873

Cash and cash equivalents from unspent bond proceeds	<u>6,193,376</u>
Total Water and Sewer Fund	6,763,249

Building Authority Capital Projects Fund - Cash and cash equivalents	<u>9,165,958</u>
Total	<u>\$ 15,929,207</u>

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for specific property, such as vehicles, computers, and employee medical claims. The Township also participates in the Michigan Municipal League risk pool for claims relating to all other property losses, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Township contributes to the Fire Retirement System, which is the administrator of a single-employer public employees' retirement system that covers all full-time fire fighters of the Township. The plan does not issue a separate financial report.

The system provides retirement, death, and disability benefits to plan members and their beneficiaries. At June 30, 2004, membership consisted of two retirees and beneficiaries currently receiving benefits and one terminated employee entitled to benefits but not yet receiving them, and three current active employees.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by a vote of the taxpayers in 1988 and requires a contribution from the employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay benefits when due. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2004, the Township's annual pension cost and actual contribution totaled \$151,206. The annual required contribution totaled \$110,309. The actual contribution was more than the required contribution by \$40,897. The difference between the required contribution and the actual contribution is the result of a difference in timing the levy of property taxes used to fund the contribution in the prior year. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the entry age actuarial funding method. Significant actuarial assumptions used include: (i) a 7.0 percent investment rate of return, (ii) projected salary increases of 5.0 percent per year, (iii) additional projected salary increases ranging from .2 percent to 3.8 percent per year, attributable to seniority/merit and age, and (iv) no postretirement benefit increases. Both (i) and (ii) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 17 years.

**Note 8 - Defined Benefit Pension Plan and Postretirement Benefits
(Continued)****Three-year Trend Information of Annual Pension Cost**

	2004	2003	2002
Annual pension costs (APC)	\$ 151,206	\$ 77,013	\$ 73,346
Percentage of annual required contribution actually contributed	137%	97%	103%
Net pension obligation	\$ -	\$ -	\$ -

Reserves

As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contribution	\$ 94,568
Reserve for retired benefit payments	268,421

Note 9 - Other Postemployment Benefits**Health Care for Retirees**

The Township provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 12 retirees are eligible for postemployment health benefits. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution recognized by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums come due. During the year, this amounted to approximately \$108,000.

Note 9 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 10 - Commitments and Contingencies

The Township has been named as a defendant in a lawsuit regarding a zoning-related matter. At one point in time, the plaintiff was seeking damages of up to \$17 million, for which the Township is uninsured. The proceedings have not yet progressed to the point where legal opinion as to the Township’s ultimate liability can be reached. Accordingly, at June 30, 2004, the Township has not recorded a liability with respect to this claim.

In the prior year, the Township entered into an intergovernmental cost-sharing agreement with two neighboring communities and the Macomb County Public Works Commissioner to fund the construction of an interceptor and wastewater disposal service. Total estimated costs are approximately \$28,000,000. Sixty percent of the cost will be shared directly by the three communities, of which the Township’s portion is approximately \$6,700,000. The remaining 40 percent will be funded by the Macomb County Water Disposal District. The Township’s cost capitalized to date is approximately \$2,000,000.

Required Supplemental Information

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 19,087,833	\$ 19,087,833	\$ 19,087,833	\$ -
Resources (Inflows)				
Property taxes and fees	1,614,200	1,614,200	1,681,720	67,520
Licenses and permits	452,300	1,807,300	2,138,452	331,152
Federal grants	50,000	50,000	45,229	(4,771)
State-shared revenues and grants	3,540,000	3,500,000	3,706,455	206,455
Charges for services	318,460	318,460	386,293	67,833
Fines and forfeitures	101,000	101,000	135,673	34,673
Special assessment	325,000	325,000	452,207	127,207
Interest	182,500	182,500	269,065	86,565
Other	103,000	143,000	163,459	20,459
Transfer from other funds	68,500	68,500	42,482	(26,018)
Total resources (inflows)	6,754,960	8,109,960	9,021,035	911,075
Charges to Appropriations (Outflows)				
General government	4,432,116	3,274,708	2,594,179	680,529
Public safety	187,085	1,939,864	1,985,782	(45,918)
Public works	-	465,000	449,956	15,044
Employee benefits and insurance	1,585,000	1,411,790	1,251,333	160,457
Debt service	558,550	68,550	85,289	(16,739)
Operating transfers out	547,480	1,299,480	1,299,185	295
Total charges to appropriations (outflows)	7,310,231	8,459,392	7,665,724	793,668
Fund Balance - End of year	\$ 18,532,562	\$ 18,738,401	\$ 20,443,144	\$ 1,704,743

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2004

Parks and Recreation Operating Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,360,689	\$ 2,360,689	\$ 2,360,689	\$ -
Resources (Inflows)				
Property taxes and fees	2,000,000	2,000,000	2,030,515	30,515
Charges for services	150,600	150,600	264,519	113,919
Interest	18,000	18,000	30,692	12,692
Other	1,500	1,500	4,627	3,127
Total resources (inflows)	2,170,100	2,170,100	2,330,353	160,253
Charges to Appropriations (Outflows)				
Recreation and culture	897,850	893,260	782,279	110,981
Debt service	-	47,100	47,019	81
Transfers to other funds	1,252,510	1,210,000	1,209,211	789
Total charges to appropriations (outflows)	2,150,360	2,150,360	2,038,509	111,851
Fund Balance - End of year	\$ 2,380,429	\$ 2,380,429	\$ 2,652,533	\$ 272,104

Fire Operating Fund

Fund Balance - Beginning of year	\$ 3,195,965	\$ 3,195,965	\$ 3,195,965	\$ -
Resources (Inflows)				
Property taxes and fees	2,700,000	2,700,000	2,791,164	91,164
Interest	40,000	40,000	47,677	7,677
Other	3,000	3,000	3,520	520
Total resources (inflows)	2,743,000	2,743,000	2,842,361	99,361
Charges to Appropriations (Outflows)				
Public safety	2,545,400	2,045,400	1,611,635	433,765
Transfers to other funds	-	500,000	500,000	-
Total charges to appropriations (outflows)	2,545,400	2,545,400	2,111,635	433,765
Fund Balance - End of year	\$ 3,393,565	\$ 3,393,565	\$ 3,926,691	\$ 533,126

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2004

Law Enforcement Sheriff

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 541,901	\$ 541,901	\$ 541,901	\$ -
Resources (Inflows)				
Property taxes and fees	2,000,000	2,000,000	2,018,972	18,972
State-shared revenues and grants	11,000	11,000	14,380	3,380
Interest	9,000	9,000	9,189	189
Total resources (inflows)	2,020,000	2,020,000	2,042,541	22,541
Charges to Appropriations (Outflows) -				
Public safety	2,175,700	2,175,700	2,068,812	106,888
Fund Deficit - End of year	<u>\$ 386,201</u>	<u>\$ 386,201</u>	<u>\$ 515,630</u>	<u>\$ 129,429</u>

Township of Macomb

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/00	\$ 606,981	\$ 937,625	\$ 330,644	64.7	\$ 205,887	160.6
06/30/02	630,031	1,158,301	528,270	54.4	288,843	182.9

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
06/30/99	\$ 68,021	122
06/30/00	71,422	79
06/30/01	69,853	107
06/30/02	73,346	103
06/30/03	77,013	97
06/30/04	110,309	137

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Amortization period (perpetual)	17 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.00%
Projected salary increases*	5.00%-8.80%
*Includes inflation at	5.00%
Cost of living adjustments	None

The information presented above was determined as part of the actuarial valuations at the dates indicated.

Township of Macomb

Note to Required Supplemental Information June 30, 2004

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township of Macomb incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
Public safety	\$ 1,939,864	\$ 1,985,782
Debt service	68,550	85,289

The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

Other Supplemental Information

Township of Macomb

	Nonmajor Special Revenue Funds			
	Budget Stabilization	Noxious Weed	Parks and Recreation Revolving	Fire Improvement
Assets				
Cash and investments	\$ 107,440	\$ 2,681	\$ 246,723	\$ 3,339,704
Receivables - Net	-	-	-	-
Total assets	<u><u>\$ 107,440</u></u>	<u><u>\$ 2,681</u></u>	<u><u>\$ 246,723</u></u>	<u><u>\$ 3,339,704</u></u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 37,440	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Total liabilities	37,440	-	-	-
Fund Balances				
Unreserved	70,000	2,681	246,723	3,339,704
Designated	-	-	-	-
Total fund balances	<u>70,000</u>	<u>2,681</u>	<u>246,723</u>	<u>3,339,704</u>
Total liabilities and fund balances	<u><u>\$ 107,440</u></u>	<u><u>\$ 2,681</u></u>	<u><u>\$ 246,723</u></u>	<u><u>\$ 3,339,704</u></u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	
1995 Special Assessment	Public Improvement	Total Nonmajor Governmental Funds
\$ 156,307	\$ 3,028,608	\$ 6,881,463
11,016	-	11,016
<u>\$ 167,323</u>	<u>\$ 3,028,608</u>	<u>\$ 6,892,479</u>
\$ -	\$ -	\$ 37,440
11,016	-	11,016
11,016	-	48,456
-	3,028,608	6,687,716
156,307	-	156,307
156,307	3,028,608	6,844,023
<u>\$ 167,323</u>	<u>\$ 3,028,608</u>	<u>\$ 6,892,479</u>

Township of Macomb

	Nonmajor Special Revenue Funds			
	Budget Stabilization	Noxious Weed	Parks and Recreation Revolving	Fire Improvement
Revenue				
Charges for services	\$ -	\$ 3,026	\$ -	\$ -
Interest income	-	54	2,049	35,640
Special assessments	-	-	-	-
Total revenue	-	3,080	2,049	35,640
Expenditures				
Current - General government	-	4,829	-	245,250
Debt service	-	-	-	-
Total expenditures	-	4,829	-	245,250
Excess of Revenue Over (Under)				
Expenditures	-	(1,749)	2,049	(209,610)
Other Financing Sources (Uses)				
Transfers in	-	2,000	80,000	500,000
Transfers out	-	-	-	(80,400)
Total other financing sources (uses)	-	2,000	80,000	419,600
Net Change in Fund Balances	-	251	82,049	209,990
Fund Balances - Beginning of year	70,000	2,430	164,674	3,129,714
Fund Balances - End of year	<u>\$ 70,000</u>	<u>\$ 2,681</u>	<u>\$ 246,723</u>	<u>\$ 3,339,704</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	
1995 Special Assessment	Public Improvement	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 3,026
3,560	36,034	77,337
10,521	-	10,521
14,081	36,034	90,884
318	-	250,397
41,363	-	41,363
41,681	-	291,760
(27,600)	36,034	(200,876)
-	-	582,000
-	(42,482)	(122,882)
-	(42,482)	459,118
(27,600)	(6,448)	258,242
183,907	3,035,056	6,585,781
<u>\$ 156,307</u>	<u>\$ 3,028,608</u>	<u>\$ 6,844,023</u>

Township of Macomb

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2004

	Pension and Other Retirement Benefit Funds			Agency Funds		
	Retirement System	Retiree Health Care	Totals	Tax Collections	Bond Escrow	Totals
Assets						
Cash and cash equivalents	\$ 452,452	\$ 1,144,190	\$ 1,596,642	\$ 20,986	\$ 2,372,991	\$ 2,393,977
Investments:						
U.S. government securities	22,947	-	22,947	-	-	-
Mutual funds	493,726	-	493,726	-	-	-
Other assets	47	-	47	-	-	-
Total assets	969,172	1,144,190	2,113,362	<u>\$ 20,986</u>	<u>\$ 2,372,991</u>	<u>\$ 2,393,977</u>
Liabilities and Net Assets						
Liabilities						
Due to other governmental units	-	-	-	\$ 20,986	\$ -	\$ 20,986
Cash bonds and deposits	-	-	-	-	2,372,991	2,372,991
Total liabilities	-	-	-	<u>\$ 20,986</u>	<u>\$ 2,372,991</u>	<u>\$ 2,393,977</u>
Net Assets - Held in trust for pension and other employee benefits	969,172	1,144,190	2,113,362			
Total liabilities and net assets	<u>\$ 969,172</u>	<u>\$ 1,144,190</u>	<u>\$ 2,113,362</u>			

Township of Macomb

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2004

	Pension Trust Funds		Totals
	Retirement System	Retiree Health Care	
Additions			
Investment income - Interest and dividends	\$ 88,989	\$ 73,132	\$ 162,121
Contributions:			
Employer	151,205	-	151,205
Employee	11,956	-	11,956
Total additions	252,150	73,132	325,282
Deductions - Benefit payments	15,906	-	15,906
Net Increase	236,244	73,132	309,376
Net Assets Held in Trust for Pension Benefits			
Beginning of year	732,928	1,071,058	1,803,986
End of year	<u>\$ 969,172</u>	<u>\$ 1,144,190</u>	<u>\$ 2,113,362</u>

October 4, 2004

Board of Trustees
Township of Macomb
54111 Broughton Road
Macomb, MI 48042

Dear Board of Trustees:

We have recently completed our audit of the governmental activities, business type activities, the aggregate discretely presented component unit information, each major fund and the aggregate remaining fund information of the Macomb Township for the year ended June 30, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration:

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government-wide financial statements*, rather than the individual fund level. As a result, the Township will need to continue to budget only the expected cash payments, whether directly for health insurance premiums or for contributions to a pre-funding plan. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. We recommend that the Township continue its proactive efforts to monitor and fund this future expenditure. The statement will not be effective until the Township's 2008-09 fiscal year.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the Township's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the Board, administration and other employees throughout the Township; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. The Board should be pleased to note that the extra inquiries and testing that were required did not reveal any issues to be reported under the requirements of SAS 99.

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STATE REVENUE SHARING

State shared revenue accounts for approximately 41% of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated. For the Township, revenue sharing funding levels are approximately \$460,000 less for the 2005 fiscal year as compared to fiscal year 2002.

Although sales tax revenue would support an increase to total state revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages, and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the Township to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable. In addition, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the Township as developments occur.

ARBITRAGE

Arbitrage is the concept of earning a profit by purchasing a security and subsequently selling it at a higher price. More specific to the municipal environment, arbitrage is earned when a bond is sold by a municipality, with interest payable at a set interest rate, and the proceeds are reinvested in investments earning higher yields. While this is not illegal, under the IRS regulations, this could result in a loss of the tax-exempt status to the bondholders. For bonds issued after August 31, 1986, the Tax Reform Act of 1986 both: a) tightened up the definition of arbitrage; and b) provided that the municipality could rebate the arbitrage earnings to the federal government, thereby retaining the tax-exempt status of the bonds.

In connection with the 1998 Revenue Bond, the Township elected to calculate potential arbitrage under the milestone method. This method protects the Township from payment of arbitrage providing bond proceeds are spent within specified periods of time. It came to our attention that as a result of adjustments in the Township's development schedule, the required semi-annual milestones were not met. Therefore, Plante and Moran performed the analysis necessary to calculate the Township's exposure to an arbitrage payment. Based on the calculation performed the Township is not subject to arbitrage. We encourage the Township to continue monitoring current and future bond issues for potential arbitrage.

HEALTH CARE COSTS

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the Township may want to consider this option as it evaluates and continues to try to control its health care costs.

NEW HOMESTEAD AUDIT PROGRAM

Public Act 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming a homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

We wish to thank the Township for the continued opportunity to serve as your auditors and for all the assistance and cooperation that we received from Mrs. Stacy VanReyendam, the accounting office, and all of the Township personnel throughout the audit. If you have any questions concerning these items or wish to discuss implementation of our recommendations, please do not hesitate to call.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst